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Report to the Legislature

WESTERN MONTANA COLLEGE

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1984

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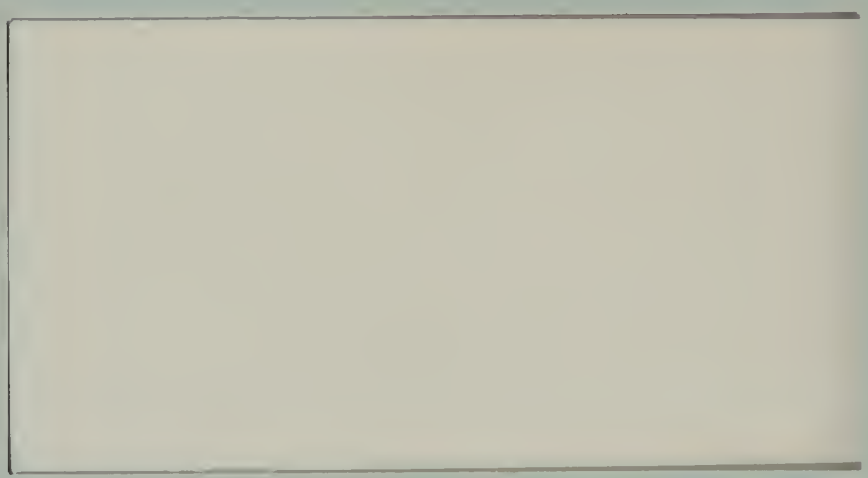

STATE OF MONTANA

Report to the Legislature

WESTERN MONTANA COLLEGE

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1984

84-21

Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

MONTANA BOARD OF REGENTS

		Term Expires
Ted Schwinden, Governor*		
Ed Argenbright, Superintendent of Public Instruction*		
David Paoli, Student Regent	Missoula	1986
Burt Hurwitz	White Sulphur Springs	1986
Jeff Morrison, Chairman	Helena	1987
Dennis Lind	Missoula	1989
Beatrice McCarthy	Anaconda	1990
Elsie Redlin	Sydney	1991
John Scully	Bozeman	1992

*Ex officio members

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION

Dr. Irving E. Dayton	Commissioner of Higher Education
John Noble	Deputy Commissioner for Financial Affairs

ADMINISTRATIVE OFFICERS

Dr. Robert H. Thomas Resignation effective April 1, 1985	President
Dr. Douglas Treadway	President
Glen D. Leavitt	Director of Fiscal Affairs
Steven P. Sikes	Controller

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

	Page
Recommendation #1	
A. We recommend WMC establish written procedures to ensure only valid receivables are placed on its accounting records.	
Agency Response: Concur. See page 45.	4
B. We recommend WMC remove all receivable amounts sent to the Department of Revenue from college accounting records in accordance with state policy.	
Agency Response: Concur. See page 45.	4
Recommendation #2	
A. We recommend WMC deposit daily receipts in a state treasury bank account.	
Agency Response: Concur. See page 45.	5
B. We recommend WMC replenish the revolving account in compliance with state policy.	
Agency Response: Concur. See page 45.	5
Recommendation #3	
We recommend WMC establish adequate controls over the check signing machine and blank check stock.	
Agency Response: Concur. See page 45.	6
Recommendation #4	
We recommend WMC withhold payroll taxes in accordance with state and federal laws.	
Agency Response. Concur. See page 45.	6
Recommendation #5	
We recommend WMC record operation and maintenance expenses in the current fund.	
Agency Response. Concur. See page 46.	7

SUMMARY OF RECOMMENDATIONS (Continued)

Page

Recommendation #6

A. We recommend the college comply with the appropriation bill language concerning allocation of audit costs.

Agency Response: Concur. See page 46. 8

B. We recommend the college consider requesting language in the appropriation bill which allows proper allocation of audit costs.

Agency Response: Concur. See page 46. 9

Recommendation #7

We recommend WMC record registration fees and the associated receivables in the proper funds.

Agency Response: Concur. See page 46. 9

Recommendation #8

We recommend WMC compensate its executive board in compliance with state law.

Agency Response: Concur. See page 46. 10

Recommendation #9

A. We recommend WMC assign each individual handling cash change funds a separate cash drawer.

Agency Response: Concur. See page 47. 10

B. We recommend WMC require each individual to reconcile daily, his/her cash drawer.

Agency Response: Concur. See page 47. 10

Recommendation #10

We recommend WMC establish adequate data processing controls.

Agency Response: Concur. See page 47. 11

SUMMARY OF RECOMMENDATIONS (Continued)

	Page
Recommendation #11	
A. We recommend WMC take an inventory of the physical plant each year.	
Agency Response: Concur. See page 47.	12
B. We recommend WMC record the physical plant inventory in its accounting records.	
Agency Response: Concur. See page 47.	12
Recommendation #12	
We recommend WMC establish procedures to ensure proper recording and counting of bookstore inventories.	
Agency Response: Concur. See page 47.	12
Recommendation #13	
We recommend WMC complete implementation of its property accounting system.	
Agency Response: Concur. See page 48.	13
Recommendation #14	
A. We recommend WMC implement an after-the-fact time and effort reporting system that will meet the requirements of federal regulations.	
Agency Response: Concur. See page 48.	14
B. We recommend WMC make cost adjustments of $44,473 to the cooperative education grant or obtain a waiver from the federal grantor agency.	
Agency Response: Concur. See page 48.	15
Recommendation #15	
A. We recommend WMC implement a system to monitor grant expenditures for allowability.	
Agency Response: Concur. See page 48.	15

SUMMARY OF RECOMMENDATIONS (Continued)

Page

B. We recommend WMC make cost adjustments of $98 to the cooperative education grant or obtain a waiver from the federal grantor agency.

Agency Response: Concur. See page 48. 15

Recommendation #16

A. We recommend WMC account for state match in a manner which will identify the expenditures with the particular grants they match.

Agency Response: Concur. See page 48. 16

B. We recommend WMC make cost adjustments of $11,387 to the cooperative education grant or obtain a waiver from the federal grantor agency.

Agency Response: Concur. See page 48. 16

Recommendation #17

We recommend WMC implement a policy to withhold the amount related to financial aid programs from student refunds.

Agency Response: Concur. See page 49. 16

Recommendation #18

A. We recommend WMC follow federal instructions when preparing its FISAP report.

Agency Response: Concur. See page 49. 17

B. We recommend WMC submit amended FISAP reports concerning maintenance of effort and tuition and fees.

Agency Response: Concur. See page 49. 17

Recommendation #19

A. We recommend WMC refund the U.S. Department of Education $705 for college work-study overawards.

Agency Response: Concur. See page 49. 18

SUMMARY OF RECOMMENDATIONS (Continued)

	Page
B. We recommend WMC modify the financial aid office system to prevent overawards.	
Agency Response: Concur. See page 49.	18
C. We recommend WMC notify the student to pay $82 on the principal of the guaranteed student loan.	
Agency Response: Concur. See page 49.	18

INTRODUCTION

We performed a financial-compliance audit of Western Montana College (WMC) for the two fiscal years ended June 30, 1984. The objectives of our audit were to: 1) determine if the college's financial statements present fairly its financial position and results of its operations for the two fiscal years ended June 30, 1984; 2) determine if the college complied with applicable state and federal laws and regulations; and 3) make recommendations for the improvement in the management and internal controls of the college.

This report contains 19 recommendations to the college. These recommendations address areas where management, internal control, financial reporting, and compliance with laws and regulations can be improved.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in the report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank Western Montana College officials and staff for their cooperation and assistance during our audit.

BACKGROUND

Western Montana College was established at Dillon by the Third Legislative Assembly in 1893. It was initially called the State Normal School at Dillon, and in 1965 the name was changed through legislation to Western Montana College. The college has been primarily oriented toward the training and education of elementary and secondary teaching personnel. Initially, the college offered a basic two-year program in education. In 1931, the State Board of Education approved a four-year course and a Bachelor of Education degree. Since that time, additional degrees have been authorized, including Bachelor of Science in Secondary Education, Master of Science in Education, Bachelor of Arts in History and English, Bachelor of Arts and Science in Natural Heritage, Bachelor of Science in Business and Associate of Arts and Science degrees.

The college is under the control and supervision of the seven-member Board of Regents of Higher Education. A local three-member executive board is appointed by the Governor. This board is advisory in nature.

The original campus is located on ten acres of land which was deeded to the college in December 1894. The ground was deeded "in Trust for the use and benefit of the State Normal School of the State of Montana." Most of the college's buildings are located on the original ten acres, but the college has since purchased property which increased the total property ownership to 34 acres.

The primary sources of revenue to operate the college come from the state's General Fund and University Millage accounts. Revenue is also received from student fees, land grant income, and auxiliary enterprise operations.

STATE COMPLIANCE

We reviewed compliance with state laws and regulations that could have a material impact on the financial statements of WMC. In our opinion, except for the instances of noncompliance on pages 4, 6, 8, and 9, the college complied with state laws and regulations tested. Nothing came to our attention that caused us to believe untested items are not in accordance with applicable laws and regulations.

ACCOUNTS RECEIVABLE

WMC has accounts receivable from students at June 30, 1984 reported at $126,656 relating to board, room, tuition, fees and telephone and $499,543 of receivables from student loans. While attempting to audit the accounts receivable at WMC, we encountered the following problems:

1. Five out of the ten account receivable confirmations received by our office for board, room, tuition and fees receivables were not in agreement with WMC records. These receivables were either determined to be invalid entirely or the dollar amounts recorded on the college records were in error.

2. WMC did not reconcile board, room, tuition and fee charges and payments to the computer accounts receivable system. The amounts recorded on the computerized receivable and subsystem do not agree to the college accounting system. Tracing a recorded receivable from input on the computerized accounts receivable system to subsequent payments could not be accomplished for semesters prior to Autumn 1983. WMC should establish a procedure to ensure charges and payments are properly and timely recorded on the WMC accounts receivable subsystem. The amounts on the system should then be properly recorded on the college accounting records.

3. WMC had not reconciled tuition and fee receivables from summer of 1982, fall of 1982, and summer of 1983 to determine if the receivables were valid or if subsequent payments were received. WMC had not sent billings for these receivables as they had not yet verified the amount to registration records and/or records of subsequent credits. The longer WMC waits to bill for the amount owing the less likelihood there is of collection. This problem is increased because the students are a mobile population. By not billing for amounts owed, WMC has a potential for loss of revenue.

4. WMC retained amounts on its receivable records that were turned over to the Department of Revenue for collection. It is state policy that once a receivable has been turned over for collection, WMC should write off the receivable on the college's records as a bad debt. The receivable should not appear on the college's primary accounting records. The receivables WMC turned over to the Department of Revenue for collection were approximately $12,000 as of June 30, 1984.

5. WMC should record tuition and fee and student loan account receivables less the amount not expected to be collected. WMC has not established an allowance for doubtful accounts. By not recording an allowance, the college indicates to users of the information that all amounts are collectible. Based on our review of the accounts, not all are collectible because WMC has: a) turned over uncollectible accounts to the Department of Revenue; and b) estimated a 5 percent default rate on National Direct Student Loans.

WMC does not have written procedures as to what should be included on its accounts receivable system. In addition once WMC determines which accounts receivables are valid, it should age them to determine collection effort and to know when to refer the

account to the Department of Revenue. Without adequate procedures to record amounts due from students, WMC could be losing revenues and/or billing for invalid receivables or receivables turned over to the Department of Revenue. As a result of the problems stated above, the board, room, tuition, fees and telephone receivables of $126,656 recorded in WMC's accounting records at June 30, 1984 are not reasonable. It was not practical for us to determine the total misstatement, but we believe it is material.

RECOMMENDATION #1

WE RECOMMEND WMC:

A. ESTABLISH WRITTEN PROCEDURES TO ENSURE ONLY VALID RECEIVABLES ARE PLACED ON ITS ACCOUNTING RECORDS.

B. REMOVE ALL RECEIVABLE AMOUNTS SENT TO THE DEPARTMENT OF REVENUE FROM COLLEGE ACCOUNTING RECORDS IN ACCORDANCE WITH STATE POLICY.

REVOLVING CASH ACCOUNT

A revolving cash account consists of moneys withdrawn from a state treasury account to establish a local checking account. This account should be used to make disbursements where timing needs can not be met by the present warrant system. These checking accounts must be authorized by the Department of Administration (DofA). WMC has a $4,500 revolving account authorized by DofA. The following problems were noted during our review of this account.

Deposits of State Receipts

According to state policy, the only moneys WMC should deposit into the revolving cash account are for replenishment by submission of a state warrant, unspent advances, or refunds of

expenditures not yet replenished. WMC had an average monthly balance of $17,362 in this revolving fund during fiscal years 1983 and 1984 even though the authorized balance was $4,500. This was a result of WMC improperly depositing daily college receipts in the revolving account.

WMC deposits its daily receipts in the state treasury account by writing a check from the revolving account. Section 17-2-105, MCA, requires all state receipts be deposited directly in a state treasury account. WMC does not have authorization for this use of the revolving account. As a result of depositing daily receipts in the revolving fund, WMC is not in compliance with state law.

RECOMMENDATION #2

WE RECOMMEND WMC:

A. DEPOSIT DAILY RECEIPTS DIRECTLY IN A STATE TREASURY BANK ACCOUNT.

B. REPLENISH THE REVOLVING ACCOUNT IN COMPLIANCE WITH STATE POLICY.

Checking Account Controls

WMC utilizes a check signing machine for checks written on the revolving cash account. WMC has not limited access to the machine to specific individuals. The machine is located in the controller's office (access is through the business office). The key to the machine is kept in an unlocked desk drawer. The controller's office is kept unlocked even when he is not present. A further control weakness exists because blank checks are kept in the business office vault and at least four people have access to the vault. WMC should establish strict controls over the check signing machine and blank check stock in order to minimize possibility of misuse.

RECOMMENDATION #3

WE RECOMMEND WMC ESTABLISH ADEQUATE CONTROLS OVER THE CHECK SIGNING MACHINE AND BLANK CHECK STOCK.

BOARD AND ROOM COMPENSATION

State and federal law requires WMC to withhold payroll taxes in accordance with a W-4 form filed by the employee. If a W-4 is not on file, WMC should withhold taxes based on single status with zero exemptions. WMC issues payroll checks to student athletes working for their board and room. However, WMC officials do not withhold payroll taxes from the students check. These students did not have W-4 forms filed with WMC claiming exempt status. Because exempt status was not claimed by these employees, WMC should withhold federal and state taxes.

The financial aid director at the college stated the student's pay rate is determined by dividing the cost of room and board by the number of hours a student is authorized to work. The financial aid director further indicated that if WMC withheld taxes, the student's full amount of board and room would not be covered.

The college should withhold payroll taxes in accordance with state and federal law.

RECOMMENDATION #4

WE RECOMMEND WMC WITHHOLD PAYROLL TAXES IN ACCORDANCE WITH STATE AND FEDERAL LAW.

MAINTENANCE OF THE GYM

WMC personnel record salaries for maintenance of the gym in the Unexpended Plant Fund. These operating costs consist of salaries for one full-time and one part-time maintenance personnel and 50 students working for room and board. Proper accounting for colleges and universities states all expenditures for operations

established to provide services and maintenance related to grounds and facilities should be recorded in the current fund. WMC records these expenditures in the plant funds because the revenues used to cover these expenditures are plant fund revenues. As a result of charging these expenditures to the plant fund, operation and maintenance expense and transfers in the Current Unrestricted Fund are understated by $101,182 in fiscal year 1983 and $129,759 in fiscal year 1984. In the Unexpended Plant Fund, expenditures are overstated and transfers are understated by the same amounts. In order to properly reflect WMC expenditure activity, the college should record the operation and maintenance expenses in the current fund.

RECOMMENDATION #5

WE RECOMMEND WMC RECORD OPERATION AND MAINTENANCE EXPENSES IN THE CURRENT FUND.

FACULTY VITALITY GRANT

WMC's accounting records reflect revenues and expenditures for the Northwest Area Foundation Faculty Vitality Grant which was granted to the Commissioner of Higher Education (CHE). This grant was for system-wide projects. CHE designated WMC to administer the grant and routed the expenditures for this system-wide grant through the college. CHE stated "the program was originally scheduled for completion as of June 30, 1983, so they did not anticipate any expenditures in fiscal year 1984. As it turned out, there was $20,871 left over and the Northwest Area Foundation provided the authority to expend the remaining portion." CHE personnel also stated "it was a management decision relating to workload" that prompted the transfer of the grant to WMC. Because the funds were granted to CHE and the expenditures were for system-wide costs, CHE should account for the grant. By not recording this activity in CHE's accounting records, CHE misleads users as to the level of its grant activities. If these funds were not anticipated when submitting its original budget, CHE should

have submitted a budget amendment to the Board of Regents to obtain the budget authority and spend these grant funds as CHE expenditures.

Because the grant has been finalized we are not including a recommendation.

AUDIT APPROPRIATIONS

The Montana Legislature establishes appropriations in the Current Unrestricted Operating Fund for each unit in the university system. House Bill 2, Special Session Laws of 1981, for the 1982-83 biennium established the audit appropriation. Language in the House Bill states WMC should charge audit costs 75 percent to appropriated funds (Current Unrestricted Operating Fund) and 25 percent to nonappropriated funds.

During fiscal year 1983, WMC incurred $15,825 in audit costs and paid 100 percent of these costs from the Current Unrestricted Operating Fund audit appropriation. WMC failed to comply with the legislative language governing the limited use of the Current Unrestricted Operating Fund involving audit cost payments. As a result, WMC spent $3,956 of the Current Unrestricted Operating Funds that should have been expended from nonappropriated funds. WMC officials indicated it recorded the costs in this manner because current restricted fund revenues available to pay audit costs are transferred into the Current Unrestricted Operating Fund. However, WMC did not take into account revenues from current unrestricted designated or current unrestricted auxiliary funds that should have been expended for audit costs.

If the language in the appropriation bill does not give the college the ability to reasonably allocate audit costs, the college should request language in the appropriation bill to allow it to properly allocate audit costs.

RECOMMENDATION #6

WE RECOMMEND THE COLLEGE:

A. COMPLY WITH THE APPROPRIATION BILL LANGUAGE CONCERNING ALLOCATION OF AUDIT COSTS,

B. CONSIDER REQUESTING LANGUAGE IN THE APPROPRIATION BILL WHICH ALLOWS PROPER ALLOCATION OF AUDIT COSTS.

USE OF AGENCY FUND

WMC uses an account within the Agency Fund to account for student registration fees (e.g., tuition, board and room) before distributing them to various funds as revenue. Since some of the students do not pay these fees immediately, WMC establishes a receivable in the Agency Fund. When WMC distributes the registration fees, it distributes cash and records revenues to the various funds for the total amount charged to the students. Since WMC distributes cash to the various funds equal to cash collected plus the receivable amount, a negative cash balance occurs in the Agency account. When this occurs, WMC uses student organization moneys, which are also recorded in the Agency Fund, to finance the college receivables.

Agency Funds are used to account for resources held by the college as custodian or fiscal agent for individual students, faculty staff members, and organizations. WMC's use of an Agency Fund for registration activity does not meet the criteria of an Agency Fund. Registration fees are state moneys and WMC should account for them in the Current Unrestricted Operating Fund. The receivables associated with these fees should also be recorded in the Current Unrestricted Operating Fund.

RECOMMENDATION #7

WE RECOMMEND WMC RECORD REGISTRATION FEES AND THE ASSOCIATED RECEIVABLES IN THE PROPER FUNDS.

COMPENSATION OF EXECUTIVE BOARD

WMC cited section 2-15-122(5), MCA, as authorization for compensating its Local Executive Board at $25 per meeting. Section 20-25-303(5), MCA, states executive board members' compensation "shall not exceed $5 for each day spent in discharging their

duties or $125 in any one year for each member." WMC should compensate its executive board in compliance with section 20-25-303(5), MCA.

RECOMMENDATION #8

WE RECOMMEND WMC COMPENSATE ITS EXECUTIVE BOARD IN COMPLIANCE WITH STATE LAW.

CASH

WMC has a cash change fund of approximately four to six thousand dollars. All business office personnel (seven individuals) have access to the cash drawer. In order to fix responsibility for the change fund and to provide a mechanism for detecting errors, WMC should assign a separate cash drawer to each person who handles the change fund. The college should also require each individual to daily reconcile his/her cash drawer.

RECOMMENDATION #9

WE RECOMMEND WMC:

A. ASSIGN EACH INDIVIDUAL HANDLING CASH CHANGE FUNDS A SEPARATE CASH DRAWER.
B. REQUIRE EACH INDIVIDUAL TO RECONCILE DAILY, HIS/HER CASH DRAWER.

DATA PROCESSING

WMC processes several types of transactions on its own minicomputer. Applications include accounts receivable, financial aid, registration and payroll. Since WMC's data processing operation is controlled by one individual, an adequate control system can best be achieved by involving the college's management and data processing users in the data processing operations.

If adequate controls are not in effect, the possibility of fraud, misuse, and undetected errors in processing is increased.

When we reviewed WMC's controls over its data processing applications, we noted the following areas where WMC can significantly increase control over its data processing functions:

1. WMC should change passwords periodically.

2. WMC should retain documentation to ensure remote job entry data is accurately and completely transmitted.

3. Since there is only one person involved in all phases of the data processing function, WMC management should take an active role in supervising EDP operations.

4. WMC should maintain a job log to monitor jobs processed and to detect unauthorized uses.

In order to reduce the possibility of errors in the data processing function, WMC should establish adequate controls.

RECOMMENDATION #10

WE RECOMMEND WMC ESTABLISH ADEQUATE DATA PROCESSING CONTROLS.

PHYSICAL PLANT INVENTORY

WMC did not count or record physical plant inventory on its financial statements in either fiscal year 1983 or 1984. Because an inventory count was not performed the dollar effect of the unrecorded inventory could not be determined. Taking an inventory count is a means of safeguarding the assets. Without an inventory listing there is the possibility of loss or theft going undetected.

Prior to the hiring of the new physical plant director, WMC did not designate the responsibility for taking the inventory to anyone. WMC has indicated the responsibility for taking the physical plant inventory was written into the job description of the new physical plant director and that the inventory will be taken for fiscal year 1985.

RECOMMENDATION #11

WE RECOMMEND WMC:

A. TAKE AN INVENTORY OF THE PHYSICAL PLANT EACH YEAR.

B. RECORD THE PHYSICAL PLANT INVENTORY IN ITS ACCOUNTING RECORDS.

BOOKSTORE INVENTORY

WMC accounts for the bookstore inventory held for resale in the Auxiliary Fund. During our observation of the physical count and the subsequent recording of the inventory, we noted the following weaknesses.

A. Inventory count was conducted from the inventory sheets to the shelved stock. Counting from the sheets to the shelf allows for the possibility of missing items not previously recorded on the inventory sheets.

B. Inventory was not tagged as it was counted. Tagging the inventory as it is counted helps prevent double counting and helps remind you where you left off when interrupted.

C. Two of the ten sample items tested were purchased over five years ago and were obsolete. Obsolete items should not be included in the inventory count.

D. No adjustment was made for items sold after the time of the physical count to year-end. This results in items being recorded as sales and as inventory.

RECOMMENDATION #12

WE RECOMMEND WMC ESTABLISH PROCEDURES TO ENSURE PROPER RECORDING AND COUNTING OF BOOKSTORE INVENTORIES.

PROPERTY SYSTEM

State accounting policies and sound management practices require a system to account for and control plant, property, and

equipment. Adequate accounting procedures and records are essential for the protection of state property.

WMC has made progress in accounting for and controlling its property in the past year by: a) taking a college-wide property inventory, and b) tagging property items. College personnel are in the process of recording the tag numbers on the property system and verifying the dollar valuation of items recorded. However, we found WMC's property system unauditable because:

1. Many items are not included on the system (e.g., items purchased between fiscal year 1979 and 1981 are not recorded).

2. Methods used to estimate costs on many items are not documented. Therefore, reasonableness of recorded amounts cannot be verified.

3. Property items were tagged. However, tag numbers were not recorded on WMC property system making verification of items impossible.

RECOMMENDATION #13

WE RECOMMEND WMC COMPLETE IMPLEMENTATION OF ITS PROPERTY ACCOUNTING SYSTEM.

FEDERAL COMPLIANCE

WMC received grants from various federal agencies as indicated on the Schedule of Federal Grant Expenditures on page 42. We reviewed major compliance for the following grants: Supplemental Educational Opportunity Grant (SEOG), Pell Grant, College Work Study (CWS), State Student Incentive Grant (SSIG), National Direct Student Loan (NDSL), Guaranteed Student Loan (GSL), Cooperative Education Grant, and the Library Grant.

Our audit of federal moneys was performed in accordance with the requirements in the U.S. Office of the Management and Budget Circular A-110, Circular 21, and the March 1984 audit guide prescribed by the U.S. Department of Education. These circulars provide for audits of financial operations, including compliance with certain provisions of federal laws and regulations.

The purpose of our audit was to determine whether costs charged to federal grants and contracts were reasonable and allowable. We also reviewed administrative controls and management systems in effect to determine if they were adequate to ensure compliance with federal regulations and grant and contract terms and conditions.

Based on our examination, we found that, for the items tested, WMC complied with the material terms and conditions of the federal grant regulations, except as discussed below. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

Time and Effort Reporting

Personnel under the Cooperative Education Grant did not use time and effort reports to verify the percentage of time spent working and claimed on grants. OMB Circular A-110 requires direct charges for salaries to be supported by time, attendance, and distribution records. As a result, we have no assurance the college employees spent the amount of time claimed on the grant. The college should establish a reporting system which shows an employee's total college activity and the associated percentage of time and effort spent on each project for allocation of salary costs.

Because of the lack of support for personnel time spent on the Cooperative Education Grant, we question $27,350 of direct personal services costs claimed and the related $2,188 of indirect costs claimed. We also question $14,935 of state match claimed on the Cooperative Education Grant as these were also personal services not supported by time and effort reports showing the individuals worked for the benefit of the grant.

RECOMMENDATION #14

WE RECOMMEND WMC:

A. IMPLEMENT AN AFTER-THE-FACT TIME AND EFFORT REPORTING SYSTEM THAT WILL MEET THE REQUIREMENTS OF FEDERAL REGULATIONS.

B. MAKE COST ADJUSTMENTS OF $44,473 TO THE CO-OPERATIVE EDUCATION GRANT OR OBTAIN A WAIVER FROM THE FEDERAL GRANTOR AGENCY.

Unallowable Costs

WMC claimed $91 of entertainment expenses on two Cooperative Education luncheons. OMB Circular A-21, Attachment J(12), specifically states entertainment expenses are not allowed. Also, the approved Cooperative Education budget did not allow entertainment expenses. As a result, we question $91 of direct cost plus $7 of indirect costs claimed for these luncheons.

RECOMMENDATION #15

WE RECOMMEND WMC:

A. IMPLEMENT A SYSTEM TO MONITOR GRANT EXPENDITURES FOR ALLOWABILITY.

B. MAKE COST ADJUSTMENTS OF $98 TO THE COOPERATIVE EDUCATION GRANT OR OBTAIN A WAIVER FROM THE FEDERAL GRANTOR AGENCY.

Matching Requirements

Federal regulations may require the state to match a share of project costs. OMB Circular A-110 requires matching costs to be verifiable in the accounting records, to be used only on one grant, and to be a necessary cost of the grant.

WMC reported a match of $27,514 for the Cooperative Education Grant on its final federal report. Of this amount, $14,935 is discussed in the section on time and effort reporting. In our review of the remaining match, we found WMC did not have any documentation to support $11,387 of the amount claimed.

In order for state match to comply with federal regulations, the required match must be adequately supported and accounted for on a project or grant basis. State matching funds should be identifiable to a particular grant in the accounting records.

RECOMMENDATION #16

WE RECOMMEND WMC:

A. ACCOUNT FOR STATE MATCH IN A MANNER WHICH WILL IDENTIFY THE EXPENDITURES WITH THE PARTICULAR GRANTS THEY MATCH.

B. MAKE COST ADJUSTMENTS OF $11,387 TO THE COOPERATIVE EDUCATION GRANT OR OBTAIN A WAIVER FROM THE FEDERAL GRANTOR AGENCY.

FINANCIAL AID REFUNDS

According to college policies, a student is entitled to a refund if the student withdraws from school within 15 days of registration. Federal regulations state "if a refund is due to a student under the institution's refund policy, and the student received financial aid under any student aid program, except college work-study, a portion of the refund shall be returned to that program." The amount of refund given by the college varies depending on the date the student withdraws.

It is WMC's policy to issue a check to the student for the full amount refunded even though the student may have received financial aid. By not withholding the portion of the refund due the student aid program, WMC lessens the chance of subsequently collecting the money from the students.

RECOMMENDATION #17

WE RECOMMEND WMC IMPLEMENT A POLICY TO WITHHOLD THE AMOUNT RELATED TO FINANCIAL AID PROGRAMS FROM STUDENT REFUNDS.

FEDERAL STUDENT AID REPORTS

As part of our audit, we tied the information reported on the federal student aid reports to the accounting and other supporting records. We noted the following discrepancies while tracing the information to the supporting records.

Maintenance of Effort

The amount of institutional expenditures included in the maintenance of effort calculation on the fiscal year 1982-83 FISAP (Fiscal Operations and Application Report) is understated by $23,449. In calculating institutional expenditures, WMC incorrectly included short-term loans of $40,271 and excluded scholarships of $63,720. WMC should comply with the instructions for completing the report and include institutional scholarships but exclude short-term loans. The college should amend the federal report for these errors. If the federal government required the college to calculate a new three-year average using 1982-83 figures for a maintenance level of effort, the college would understate the average if these errors are not corrected.

Tuition and Fees

Tuition and fees reported by WMC on the FISAPs for both fiscal years 1982-83 and 1983-84 were understated by $204,032 and $279,623, respectively. The misstatement occurred because fees allocated to the plant fund, designated fund, auxiliary fund, and agency fund were not included. The instructions provided by the federal government for completing the FISAP states all tuition and fees collected should be included in the reported total. Since this information is used for WMC's application of future federal student aid funds and used as a basis of the level of federal funding, WMC should report tuition and fee revenue in compliance with the federal instructions.

RECOMMENDATION #18

WE RECOMMEND WMC:

A. FOLLOW FEDERAL INSTRUCTIONS WHEN PREPARING ITS FISAP REPORT.

B. SUBMIT AMENDED FISAP REPORTS CONCERNING MAINTENANCE OF EFFORT AND TUITION AND FEES.

STUDENT AID OVERAWARDS

During our audit, we noted two instances out of twenty-eight tested where financial aid received by the student exceeded the student's need based upon the needs analysis. In the first instance, WMC completed a revised needs analysis. In completing the revised needs analysis, WMC failed to include a scholarship received by the student. This resulted in a college work-study (CWS) overaward to the student of $328. In the second instance, WMC awarded the student Pell and College Work-Study after the student had received a Guaranteed Student Loan (GSL). However, WMC failed to consider the GSL in the student's needs analysis. This resulted in the student receiving a Pell overaward of $82 and a College Work-Study overaward of $377.

According to federal regulations, WMC may not award federal assistance to a student if the aid, when combined with all other resources, exceeds the student's financial need.

RECOMMENDATION #19

WE RECOMMEND WMC:

A. REFUND THE U.S. DEPARTMENT OF EDUCATION $705 FOR COLLEGE WORK-STUDY OVERAWARDS.

B. MODIFY THE FINANCIAL AID OFFICE SYSTEM TO PREVENT OVERAWARDS.

C. NOTIFY THE STUDENT TO PAY $82 ON THE PRINCIPAL OF THE GUARANTEED STUDENT LOAN.

INTERNAL CONTROL

We have examined the financial statements of Western Montana College for the two fiscal years ended June 30, 1984. We issued our opinion dated February 7, 1985 on these statements. As part of our examination, we made a study and evaluation of the system of control of the college. Our study evaluated the system as required by generally accepted governmental auditing standards

for financial and compliance audits. We classified the controls in the following categories:

1. revenue/account receivable;
2. payroll;
3. expenditures;
4. cash; and
5. plant, property, and equipment.

We evaluated controls over revenue; payroll; expenditure; cash; and plant, property, and equipment. Through our study, we determined the nature, timing, and extent of our auditing procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments on the system as a whole. Our review of plant, property, and equipment, and accounts receivable internal controls indicated material control weaknesses. As a result we determined the net investment in plant and accounts receivable were unauditable.

The management of the college is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the college. However, our study disclosed conditions that could result in financial statement errors

that would be difficult to detect. These conditions relating to equipment, accounts receivable, data processing, and cash are discussed on pages 12, 10, and 5.

The preceding four paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon issuance to the Legislative Audit Committee, is a matter of public record.

RECOMMENDATIONS OF PRIOR AUDIT

A public accounting firm performed an audit of the college for the two fiscal years ended June 30, 1982. The report contained 14 recommendations which are still applicable to current operations under audit. Of these recommendations, the college has implemented 7, partially implemented 3, and has not implemented 4. Discussion of the plant, property, and equipment; revolving fund cash; and account receivable recommendations, for which the college has not taken adequate corrective action, are on pages 12, 4, and 2, respectively.

AUDITOR'S REPORT
AND WESTERN MONTANA COLLEGE FINANCIAL STATEMENTS

SUMMARY OF AUDIT OPINION

We issued a qualified opinion on Western Montana College financial statements for fiscal years 1982-83 and 1983-84.

The reason for these qualifications are explained on pages 21 and 22 of the auditor's report. A qualified opinion indicates a user of the financial statements for both fiscal years audited should exercise caution when using the statements.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JAMES H. GILLETT
FINANCIAL/COMPLIANCE AUDITS
SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the accompanying Balance Sheet of Western Montana College at June 30, 1984, and the related Statements of Changes in Fund Balances and Current Funds Revenues, Expenditures, and Other Changes for each of the two fiscal years then ended. Except as explained in paragraphs three through five, our examination was made in accordance with generally accepted auditing standards and Standards for Audits of Governmental Organizations, Programs, Activities, and Functions and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements presented are only for Western Montana College. Accordingly, the accompanying financial statements are not intended to present fairly the financial position of the State of Montana as of June 30, 1984 or the results of its operations and changes in its fund balances for the two fiscal years then ended, in conformity with generally accepted accounting principles.

The college did not record a physical plant inventory in its Current Unrestricted Operating Fund at June 30, 1983 or 1984. Generally accepted accounting principles require material inventories to be reported in the financial statements as assets.

Records supporting the cost of building, land, and equipment at June 30, 1982, 1983, and 1984 were not such as would permit us to apply procedures to satisfy ourselves regarding the cost of buildings and equipment.

We determined the college's procedures for recording accounts receivable is not adequate to detect or prevent significant errors recorded on its financial records. It was impractical for us to apply adequate alternative test procedures to the receivables reported on the balance sheets for the current funds as of June 30, 1984 but we believe they are materially misstated.

In our opinion, except for the effects discussed in paragraphs three through five, the financial statements referred to above present fairly the financial position of Western Montana College as of June 30, 1984, the changes in its fund balances, and the current funds revenues, expenditures, and other changes for each of the two years then ended in conformity with generally accepted accounting principles which, except for the changes, with which we concur, in the reporting of athletic mandatory fees and Pell Grants in year 1983, have been applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Federal Grant Expenditures for fiscal years ended June 30, 1983 and 1984, and the Schedule of Full-Time Equivalent (FTE) Students for the two years ending June 30, 1984, are presented as supplemental information and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our examination of the basic financial statements. In our opinion, except for the effects of the matters discussed in paragraphs three through five, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

February 7, 1985

Approved:

Robert R. Ringwood

Robert R. Ringwood
Legislative Auditor

WESTERN MONTANA COLLEGE
BALANCE SHEET
JUNE 30, 1984

ASSETS		LIABILITIES AND FUND BALANCE	
Current Funds		Current Funds	
Unrestricted		Unrestricted	
Educational and General		Educational and General	
Cash on hand, in bank and with State Treasurer	$143,288	Deferred Revenue	$ 54,081
Accounts Receivable	151,051	Accounts Payable	251,697
Prepaid Expenses	64,765	Due to State General Fund	53,326
		Liability for Compensated Absences	299,567
		Fund Balance	(299,567)
Total	359,104	Total	359,104
Designated		Designated	
Cash	36,404	Accounts Payable	11,445
Accounts Receivable	22,593	Deferred Revenue	12,950
Inventory	1,436	Fund Balance	36,827
Prepaid Expenses	789		
Total	61,222	Total	61,222
Auxiliary Enterprises		Auxiliary Enterprises	
Cash	37,541	Accounts Payable	112,688
Accounts Receivable	58,652	Deposits held in Trust	15,241
Investments	12,295	Fund Balance	46,543
Inventory	65,649		
Prepaids	335		
Total	174,472	Total	174,472
Total Unrestricted	$594,798	Total Unrestricted	$594,798

See Notes to Financial Statements

WESTERN MONTANA COLLEGE
BALANCE SHEET - CONTINUED
JUNE 30, 1984

ASSETS		LIABILITIES AND FUND BALANCE	
Restricted		Restricted	
Cash	$ 33,365	Accounts Payable	$ 36,885
Investments	2,712	Notes Payable	25,659
Accounts Receivable	56,788	Fund Balance	30,321
Total Restricted	92,865	Total Restricted	92,865
Total Current Funds	$ 687,663	Total Current Funds	$ 687,663
Loan Funds		Loan Funds	
Cash	69,524	Due to Other Funds	2,268
Accounts Receivable	9,298	Fund Balance	567,454
Student Loan Advances Receivable	2,442		
Loans Receivable:			
Short-term Loans to Students	18,915		
National Direct Student Loans	499,543		
Allowance for Doubtful Accounts	(30,000)		
Total Loan Funds	$ 569,722	Total Loan Funds	$ 569,722

See Notes to Financial Statements

WESTERN MONTANA COLLEGE
BALANCE SHEET - CONTINUED
JUNE 30, 1984

ASSETS		LIABILITIES AND FUND BALANCE	
Plant Funds		Plant Funds	
Retirement of Indebtedness		Retirement of Indebtedness	
Cash with Treasurer and Trustee	$ 25,557	Accounts Payable	$ 6,786
Accounts Receivable	28,336	Deferred Revenue	9,140
Investments	213,605	Fund Balance	278,152
Notes Receivable	13,811		
Construction Advance	12,769		
Total Retirement of Indebtedness	294,078	Total Retirement of Indebtedness	294,078
Investment in Plant		Investment in Plant	
Land, Buildings, Equipment and Library Books	6,849,146	Bonds Payable	1,158,000
Construction in Progress		Fund Balance	5,691,146
Total Investment in Plant	6,849,146	Total Investment in Plant	6,849,146
Total Plant Funds	$7,143,224	Total Plant Funds	$7,143,224

See Notes to Financial Statements

WESTERN MONTANA COLLEGE
BALANCE SHEET - CONTINUED
JUNE 30, 1984

ASSETS		LIABILITIES AND FUND BALANCE	
Agency Funds		Agency Funds	
Cash	$20,931	Accounts Payable	$ 22,731
Accounts Receivable	20,888	Property Held in Trust	34,293
Investments	15,005		
Prepaid Expenses	200		
Total Agency Funds	$ 57,024	Total Agency Funds	$57,024

See Notes to Financial Statements

WESTERN MONTANA COLLEGE
STATEMENT OF CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30,1984

	Current Funds			Plant Funds		
	Unrestricted	Restricted	Loan Funds	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Revenues and Other Additions						
Educational and General	$3,588,856					
Designated Funds	245,517					
Auxiliary Enterprises	1,266,370					
Government Grants and Support		$584,891				
Private Gifts and Grants		91,038	$400			
Interest on Loans Receivable			7,979			
Investment Income-Restricted					$ 22,617	
Student Fees-Restricted					83,081	
Land Grant Income-Restricted					154,238	
Expended for Plant Facilities						$245,959
Retirement of Indebtedness						76,000
Total Revenues and Other Additions	$5,100,743	$675,929	$8,379	-0-	$259,936	$321,959

See Notes to Financial Statements

WESTERN MONTANA COLLEGE
STATEMENT OF CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 1984

	Current Funds			Plant Funds		
	Unrestricted	Restricted	Loan Funds	Renewals and Re-Placemnts	Retirement of Indebtedness	Investment in Plant
Expenditures and Other Deductions						
Education and General	$3,604,955	$662,052				
Designated Funds	262,347					
Auxiliary Enterprises	1,203,556					
Indirect Cost Recovered						
Loan Cancellations			$ 6,226			
Administration and Collection Cost			7,780			
Operating Expenses					$ 34,604	
Expended for Plant Facilities						
Retirement of Indebtedness					76,000	
Interest on Indebtedness					40,845	
Transfer to Other Funds						
Loan Write-offs						
Total Expenditures and Other Deductions	$5,070,858	$662,052	$14,006	-0-	$151,449	-0-

See Notes to Financial Statements

WESTERN MONTANA COLLEGE
STATEMENT OF CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 1984

	Current Funds			Plant Funds		
	Unrestricted	Restricted	Loan Funds	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Transfers Among Funds - Additions (Deductions)						
Non-Mandatory	$129,759				$(129,759)	
Mandatory:						
Sinking fund	(51,098)					
Agency fund	(75,436)				51,098	
Total Transfers	3,225				(78,661)	
Net Increase (Decrease) for the Year	33,110	$ 13,877	$ (5,627)		29,826	$ 321,959
Fund Balance at Beginning of Year	(240,409)	8,904	583,816		248,328	5,803,901
Prior Year Adjustment & Other	(8,898)	7,540	(10,735)			(434,714)
Fund Balance at End of Year	$(216,197)	$30,321	$567,454	-0-	$278,152	$5,691,146

See Notes to Financial Statements

WESTERN MONTANA COLLEGE
STATEMENT OF CURRENT FUNDS, REVENUES, EXPENDITURES
AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1984

	Unrestricted	Restricted	Total
Revenues			
Educational and General			
Tuition and Fees	$ 584,222		$ 584,222
State Governmental Support	2,982,144	$ 15,986	2,998,130
Government Grants		569,754	569,754
Indirect Costs Recovered	14,835		14,835
Miscellaneous Collections	7,655		7,655
Private Grants		76,312	76,312
Total Educational and General	3,588,856	662,052	4,250,908
Designated Funds	245,517		245,517
Auxiliary Enterprises	1,266,370		1,266,370
Total Revenues	5,100,743	662,052	5,762,795
Expenditures and Mandatory Transfers			
Educational and General			
Instruction	1,508,317	151,575	1,659,892
Academic Support	360,295	33,157	393,452
Student Services	487,205	22,608	509,813
Institutional Support	604,442	11,304	615,746
Operation of Plant	570,015	93,216	663,231
Student Aid	58,582	350,192	408,774
Compensated Absences	16,099	-0-	16,099
Total Education and General	3,604,955	662,052	4,267,007

See Notes to Financial Statements

WESTERN MONTANA COLLEGE
STATEMENT OF CURRENT FUNDS, REVENUES, EXPENDITURES
AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1984

	Unrestricted	Restricted	Total
Designated Funds - Instruction			
Expenditures	$ 262,347		$ 262,347
Mandatory Transfers	75,436		75,436
Total Designated	337,783		337,783
Auxiliary Enterprises			
Expenditures	1,203,556		1,203,556
Mandatory Transfer for Principal and Interest	51,098		51,098
Total Auxiliary Enterprises	1,254,654		1,254,654
Total Expenditures and Mandatory Transfers	5,197,392	$ 662,052	5,859,444
Non-Mandatory Transfers	129,759		129,759
Other Deductions			
Excess(deficit) of Transfers to Revenues over Restricted Receipts		13,877	13,877
Net Increase(Decrease) in Fund Balance	$ 33,110	$ 13,877	$ 46,987

See Notes to Financial Statements

WESTERN MONTANA COLLEGE
STATEMENT OF CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 1983

	Current Funds		Endowment Funds	Loan Funds	Plant Funds		
	Unrestricted	Restricted			Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Revenues and Other Additions							
Educational and General	$3,275,302						
Designated Funds	141,937						
Auxiliary Enterprises	1,169,480						
Government Grants and Support		$534,723					
Private Gifts and Grants		83,554					
Interest on Loans Receivable				$15,383			
Investment Income-Restricted						$ 35,471	
Student Fees-Restricted						57,246	
Land Grant Income-Restricted						113,168	
Expended for Plant Facilities							$286,709
Retirement of Indebtedness							75,000
Total Revenues and Other Additions	$4,586,719	$618,277	-0-	$15,383	-0-	$205,885	$361,709

See Notes to Financial Statements

WESTERN MONTANA COLLEGE
STATEMENT OF CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 1983

	Current Funds		Endowment Funds	Loan Funds	Plant Funds		
	Unrestricted	Restricted			Renewals and Replacemnts	Retirement of Indebtedness	Investment in Plant
Expenditures and Other Deductions							
Education and General	$3,317,652	$611,230					
Designated Funds	190,534						
Auxiliary Enterprises	1,176,361						
Indirect Cost Recovered							
Loan Cancellations				$ 6,936			
Administration and Collection Cost				2,618			
Operating Expenses				3,000			
Expended for Plant Facilities						$17,268	
Retirement of Indebtedness						75,000	
Interest on Indebtedness						43,288	
Loan Write-offs							
Total Expenditures and Other Deductions	$4,684,547	$611,230	-0-	$12,554	-0-	$ 135,556	-0-

See Notes to Financial Statements

WESTERN MONTANA COLLEGE
STATEMENT OF CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 1983

	Current Funds		Endowment Funds	Loan Funds	Plant Funds		
	Unrestricted	Restricted			Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Transfers Among Funds - Additions (Deductions)							
Non-Mandatory	$ 101,182	$ 2,847	$(2,847)			$(101,182)	
Mandatory:							
Sinking fund	(30,658)					30,658	
Agency fund	(55,147)						
Total Transfers	15,377	2,847	(2,847)	-0-	-0-	(70,524)	
Net Increase (Decrease) for the Year	(82,451)	9,894	(2,847)	$2,829		(195)	$361,709
Fund Balance at Beginning of Year	79,274	(990)	2,847	603,987		248,523	5,442,192
Prior Year Expenditures				(23,000)			
Prior Year Adjustment for Compensated Absences	(237,232)						
Fund Balance at End of Year	$(240,409)	$8,904	-0-	$583,816	-0-	$248,328	$5,803,901

See Notes to Financial Statements

WESTERN MONTANA COLLEGE
STATEMENT OF CURRENT FUNDS, REVENUES, EXPENDITURES
AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1983

	Unrestricted	Restricted	Total
Revenues			
Educational and General			
Tuition and Fees	$ 527,942		$ 527,942
State Governmental Support	2,724,874	$ 9,100	2,733,974
Government Grants		505,239	505,239
Indirect Costs Recovered	19,006		19,006
Miscellaneous Collections	3,480		3,480
Private Grants		96,816	96,816
Total Educational and General	3,275,302	611,155	3,886,457
Designated Funds	141,937		141,937
Auxiliary Enterprises	1,169,480		1,169,480
Total Revenues	4,586,719	611,155	5,197,874
Expenditures and Mandatory Transfers			
Educational and General			
Instruction	1,380,036	175,391	1,555,427
Academic Support	314,432	29,700	344,132
Student Services	468,682	15,264	483,946
Institutional Support	522,270	10,176	532,446
Operation of Plant	531,027	83,109	614,136
Student Aid	54,969	297,515	352,484
Compensated Absences	46,236		46,236
Total Education and General	3,317,652	611,155	3,928,807

See Notes to Financial Statements

WESTERN MONTANA COLLEGE
STATEMENT OF CURRENT FUNDS, REVENUES, EXPENDITURES
AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1983

	Unrestricted	Restricted	Total
Designated Funds - Instruction			
Expenditures	$190,534		$190,534
Mandatory Transfers	55,147		55,147
Total Designated Funds	245,681		245,681
Auxiliary Enterprises			
Expenditures	1,176,361		1,176,361
Mandatory Transfer for Principal and Interest	30,658		30,658
Total Auxiliary Enterprises	1,207,019		1,207,019
Total Expenditures and Mandatory Transfers	4,770,352	611,155	5,381,507
Non-Mandatory Transfers	101,182		101,182
Other Deductions			
Excess(deficit) of Transfers to Revenues over Restricted Receipts		9,894	9,894
Net Increase(Decrease) in Fund Balance	$ (82,451)	$ 9,894	$ (72,557)

See Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

ACCRUAL BASIS

The financial statements of Western Montana College have been prepared on the accrual basis except for depreciation accounting. The statement of current funds revenue, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenditures.

FUND ACCOUNTING

The accompanying financial statements are prepared in accordance with the principles of "fund accounting" wherein resources are classified by the limitations and restrictions placed upon their use. These separate funds are then combined according to their common characteristics into fund groups (each an accounting entity complete with a self-balancing set of accounts) and reflected by fund groups in the accompanying financial statements.

Descriptions of the common characteristics of the funds in the various fund groups are as follows:

CURRENT FUNDS

The current funds group includes economic resources expendable in performing the primary objectives of the institutions, i.e., instruction and public service. The current funds group has two basic distinct sub-groups. Unrestricted funds which have no external expenditure restrictions, and restricted funds which have external expenditure restrictions.

LOAN FUNDS

This group of resources is available to aid in financing qualifying students' education. Private as well as College resources provide some loan funds, however, the federal government contributes the large majority.

ENDOWMENT FUNDS

Endowment funds are resources with specific restrictions negating the expenditure of the principal; usually income on endowment principal may be expended or added to the principal depending on donor stipulations.

FUND ACCOUNTING - Cont.

PLANT FUNDS

Plant funds are separated into four distinct sub-groups with self-balancing accounts:

Unexpended Plant Funds - utilized for acquisition of long-term institutional assets.

Renewal and Replacement Funds - utilized for long-term institutional asset maintenance.

Retirement of Indebtedness Funds - utilized for debt service charges and retirement of indebtedness on long-term institutional assets.

Investment in Plant - denotes the cost of long-term institutional assets and associated liabilities.

AGENCY FUNDS

The agency funds group is used to segregate assets held by the institution as a custodian or fiscal agent for other organizations or individuals.

APPROPRIATIONS

Appropriations in the Current Unrestricted Fund are made by the Legislature for operating purposes of Western Montana College. Expenditures against these appropriations are funded by corresponding funds at the state level. Unexpended or unencumbered balances in these appropriations revert to the respective state funds at year-end.

Note 2 - Investments

All investments are recorded at cost. Investment income is generally recorded when received. The investments of Western Montana College consist primarily of amounts invested through the Montana State Board of Investments using its Short-term Investment Pool and United States Treasury Bills.

Investments owned by the several funds at June 30, 1984, are as follows:

Note 2 - Investments - Cont.

	Cost	Market or Unit Value
Current Unrestricted Funds:		
Auxiliary Enterprises	$12,295	$12,102
Restricted	2,712	2,792
Plant Funds:		
Retirement of Indebtedness	213,605	213,306
Agency Funds	15,005	14,894
Total	$243,617	$243,094

Note 3 - Inventories

Inventories included are the bookstore, vending inventory, and the snack bar. All recorded inventories are stated at cost using the first-in/ first-out method.

Note 4 - Vacation Pay and Sick Pay

Permanent non-faculty employees may accumulate and carry over a maximum of two years vacation into a new calendar year. Faculty employees accumulate only sick leave. Unused accumulated vacation is redeemed in cash upon termination of employment. Upon termination, unused sick leave earned since July 1, 1971, is purchased from the employee at 25 percent value. The amount of accumulated leave at June 30, 1984 was $299,567.

Note 5 - Allowance for Uncollectible Accounts

Uncollectible student accounts are not recognized until the accounts are written off or cancelled. The college bills students regularly for one academic quarter, then turns the accounts over to the Montana Department of Revenue for collection. Generally accepted accounting principles require the establishment of an allowance for uncollectible accounts. The amounts of these uncollectible receivables is immaterial in relation to the financial statements taken as a whole.

Uncollectible National Direct Student Loan Programs are not recognized until the loans are cancelled or written off in conformity with applicable program requirements. Generally accepted accounting principles require the establishment of an allowance for uncollectible loans. The amounts of these uncollectible loans is immaterial in relation to the financial statements taken as a whole.

Note 6 - Bonds Payable

At June 30, 1984, the college has a total of $1,158,000 in outstanding revenue bonds payable. These bonds were issued for construction of various college facilities and are summarized as follows:

Note 6 - Bonds Payable - Cont.

"1966 Indenture" to build a three-story dormitory. There are $786,000 of bonds outstanding at June 30, 1984. They are due in varying annual installments (on October 1st) through 2006. The annual debt service for the year ended June 30, 1984, was $80,196. The future maximum annual debt service requirement of $89,378 will be in the year ending June 30, 1985. The bonds bear interest from 2-3/4% to 3½% per annum with semi-annual payment dates (April 1st and October 1st). The indenture requires that net annual earnings of the college's housing and dining system and fees pledged under the indenture be sufficient to make deposits to sinking fund trust accounts in order that these accounts may meet current debt requirements and maintain a fixed reserve. The earning requirement was met as of June 30, 1984. The net revenues of the college's housing and dining system, student union fees and student building fees are pledged to this indenture to maintain required balances in the trust account.

"1967 Indenture" to build a physical education building and install necessary equipment. There are $372,000 of bonds outstanding at June 30, 1984. They are due in installments (on July 1st) through 1997. The annual debt service for the year ended June 30, 1984, was $36,649. The bonds bear interest from 3% to 5¼% per annum with semi-annual payment dates (January 1st and July 1st). Annual earnings from fees and income pledged to this indenture must be sufficient to maintain a required balance in the sinking fund trust account. The earnings requirement was met as of June 30, 1984. The necessary amount of Physical Education Building fees, land grant income and usage charges are pledged to the indenture to maintain required balances in the trust account.

The college records interest expense on these bonds when paid. The recognition of accrued interest would not have a material effect on the college's over-all financial position.

The annual payments for all bond requirements are as follows:

	1966	1967
1985	65,000	22,000
1986	58,000	23,000
1987	35,000	23,000
1988-97		304,000
1988-2006	628,000	
	$786,000	$372,000

Note 7 - Investment in Plant

Physical plant, equipment and library books are stated at cost or historically based appraisal values. Depreciation on physical plant and equipment is not recorded. Property disposed of is not deleted from the accounting records.

Note 8 - Retirement Programs

Retirement benefits are provided for the academic and certain professional staff through the Montana Teachers' Retirement System (TRS) and all other staff through the Montana Public Employees' Retirement System (PERS). Both plans are operated by the State of Montana and membership is compulsory for the respective classes of employees. Contributions are shared by the participant's salary to TRS and PERS.

Defined benefits under both plans are based on years of service and final average of the participants. The actuarial present value of vested benefits and the amount, if any, of unfunded past service costs for employees covered under the plans was determined actuarially sound as reported by the systems' actuary at June 30, 1981 for the Teachers' Retirement System and at June 30, 1982 for the Public Employees' Retirement System. The college's share of the cost of these plans for the year ended June 30, 1984, was $117,430 for TRS and $61,939 for PERS. The share of the cost in fiscal year 1983 was $89,975 and $64,493 respectively.

Note 9 - Unearned Income

Summer school revenues and related expenditures are detailed at June 30, 1984, and recorded as revenue and expense in the succeeding fiscal years.

Note 10 - Classification Change

Certain athletic expenditures were previously accounted for as auxiliary funds. They are currently included in the designated fund group. Mandatory fees for the college yearbook and student newspaper were previously included in the agency fund group. They are currently included in the designated fund group. Pell grants were previously recorded in the agency fund and are now recorded in the restricted subfund.

WESTERN MONTANA COLLEGE
SCHEDULE OF FEDERAL GRANT AND SUBGRANT EXPENDITURES AND LOAN DISBURSEMENTS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1984

Grantor	Grant Number	Fiscal Year 1982-83	Fiscal Year 1983-84
U.S. Department of Education			
Library Grant	G008351162	$ 840	$ 831
SEOG	P008442429		14,700
	P008432429		
Pell	CAN2E003293	20,370	-0-
	R008402060	-0-	326,913
	CAN2E003266	257,944	-0-
CWS	P008412429	-0-	198,324
	CAN2E003297	169,610	-0-
Cooperative Education	G008103959	17,602	-0-
NDSL Disbursement		61,700	79,400
U.S. Department of Agriculture			
Forest Service Contract	530378-2-13	22,007	-0-
State Department of Labor			
Improve Career Decision Making	6602-3968	-0-	271
Anaconda Job Corp	530398-3DE-26	6,760	26,387
State Department of Highways			
Drivers Education		-0-	6,272
Commissioner of Higher Education			
SSIG		4,550	3,985

WESTERN MONTANA COLLEGE
SCHEDULE OF FULL-TIME EQUIVALENT (FTE) STUDENTS
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1984

Semester	Year	Undergraduate FTEs Reported [1]	Graduate FTEs Reported [2]	Total FTEs Reported
Summer	1982	129	80	209
Autumn	1982	757	14	771
Spring	1983	720	15	735
Summer	1983	188	66	254
Autumn	1983	778	15	793
Spring	1984	696	15	711

[1] Undergraduate quarterly credit hours divided by 15.

[2] Graduate quarterly credit hours divided by 12.

AGENCY RESPONSE

RECEIVED
MAY 23 1985
MONTANA LEGISLATIVE AUDITOR

May 21, 1985

Robert R. Ringwood
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Ringwood:

Enclosed find Western Montana College's response to the recommendations in the audit report.

Sincerely,

Glen D. Leavitt
Director of Fiscal Affairs

GDL/ds

RECOMMENDATION #1

A. ESTABLISH WRITTEN PROCEDURES TO INSURE ONLY VALID RECEIVABLES ARE PLACED ON ITS ACCOUNTING RECORDS.

B. REMOVE ALL RECEIVABLE AMOUNTS SENT TO THE DEPARTMENT OF REVENUE FROM COLLEGE ACCOUNTING RECORDS IN ACCORDANCE WITH STATE POLICY.

A. Concur.

B. Concur.

RESPONSE:

The receivable system was rewritten for fall of 1983. All receivables reconcile since that period. Written procedures will be developed. We will write off receivables sent to collection agencies.

RECOMMENDATION #2

A. DEPOSIT DAILY RECEIPTS DIRECTLY IN A STATE TREASURY BANK ACCOUNT.

B. REPLENISH THE REVOLVING ACCOUNT IN COMPLIANCE WITH STATE POLICY.

A. Concur.

B. Concur.

RECOMMENDATION #3

ESTABLISH ADEQUATE CONTROL OVER THE CHECK SIGNING MACHINE AND BLANK CHECK STOCK.

Concur.

RECOMMENDATION #4

WITHHOLD PAYROLL TAXES IN ACCORDANCE WITH STATE AND FEDERAL LAW.

Concur.

RESPONSE:

This was an oversight for this group of employees and will be corrected.

RECOMMENDATION #5

RECORD OPERATION AND MAINTENANCE EXPENSES IN THE CURRENT FUND.

Concur.

RESPONSE:

The financial statements have been adjusted to properly record this activity. The accounting records will be adjusted to disclose this starting in fiscal year 1986.

RECOMMENDATION #6

A. COMPLY WITH THE APPROPRIATION BILL LANGUAGE CONCERNING ALLOCATION OF AUDIT COST.

B. CONSIDER REQUESTING LANGUAGE IN THE APPROPRIATION BILL WHICH ALLOWS PROPER ALLOCATION OF AUDIT COST.

Concur.

RESPONSE:

While it is Legislative Audit Office policy that bond audits are not included under the wording in the appropriation act; the funds audited under bond audits were included when the ratio of current operating to other nonappropriated funds was calculated. This is the reason we thought bond audit expenditures could be counted toward that 25 percent nonappropriated funds. WMC will revert $3,956 to the general fund.

RECOMMENDATION #7

RECORD REGISTRATION FEES AND THE ASSOCIATED RECEIVABLES IN THE PROPER FUNDS.

Concur.

RESPONSE:

This was implemented during fiscal year 1985.

RECOMMENDATION #8

COMPENSATE ITS EXECUTIVE BOARD IN COMPLIANCE WITH STATE LAW.

Concur.

RESPONSE:

There is a conflict between Board of Regent's policy and state law. We will attempt to have this corrected in the next legislative session.

RECOMMENDATION #9

A. ASSIGN EACH INDIVIDUAL HANDLING CASH CHANGE FUNDS A SEPARATE CASH DRAWER.

B. REQUIRE EACH INDIVIDUAL TO RECONCILE DAILY HIS/HER CASH DRAWER.

A. Concur.

B. Concur.

RESPONSE:

Each cash drawer is always reconciled. Another cash drawer will be used by the back-up cashier.

RECOMMENDATION #10

ESTABLISH ADEQUATE DATA PROCESSING CONTROLS.

Concur.

RECOMMENDATION #11

A. TAKE AN INVENTORY OF THE PHYSICAL PLANT EACH YEAR.

B. RECORD THE PHYSICAL PLANT INVENTORY IN ITS ACCOUNTING RECORDS.

A. Concur.

B. Concur.

RESPONSE:

This will be completed during fiscal year 1985.

RECOMMENDATION #12

ESTABLISH PROCEDURES TO ENSURE PROPER RECORDING AND COUNTING OF BOOKSTORE INVENTORIES.

Concur.

RESPONSE:

The bookstore staff will be instructed as to proper inventory procedures.

RECOMMENDATION #13

COMPLETE IMPLEMENTING OF ITS PROPERTY ACCOUNTING SYSTEM.

Concur.

RECOMMENDATION #14

A. IMPLEMENT AN AFTER THE FACT TIME AND EFFORT REPORTING SYSTEM THAT WILL MEET THE REQUIREMENTS OF FEDERAL REGULATIONS.

B. MAKE COST ADJUSTMENTS OF $44,473 TO THE COOPERATIVE EDUCATION GRANT OR OBTAIN A WAIVER FROM THE FEDERAL GRANT AGENCY.

A. Concur.

B. Concur.

RESPONSE:

We are contacting the grantor agency to attempt to obtain a waiver. We are also reconstructing past records to meet federal requirements.

RECOMMENDATION #15

A. IMPLEMENT A SYSTEM TO MONITOR GRANT EXPENDITURES FOR ALLOWABILITY.

B. MAKE COST ADJUSTMENTS OF $98 TO THE COOPERATIVE EDUCATION GRANT OR OBTAIN A WAIVER FROM THE FEDERAL GRANTOR AGENCY.

A. Concur.

B. Concur.

RESPONSE:

We are contacting the grantor agency to attempt to obtain a waiver. We are also reconstructing past records to meet federal requirements.

RECOMMENDATION #16

A. ACCOUNT FOR STATE MATCH IN A MANNER WHICH WILL IDENTIFY THE EXPENDITURES WITH THE PARTICULAR GRANT THEY MATCH.

B. MAKE COST ADJUSTMENTS OF $11,387 TO THE COOPERATIVE EDUCATION GRANT OR OBTAIN A WAIVER FROM THE FEDERAL GRANTOR AGENCY.

A. Concur.

B. Concur.

RESPONSE:

We are contacting the grantor agency to attempt to obtain a waiver. We are also reconstructing past records to meet federal requirements.

RECOMMENDATION #17

IMPLEMENT A POLICY TO WITHHOLD THE AMOUNT RELATED TO FINANCIAL AID PROGRAMS FROM STUDENT REFUNDS.

Concur.

RESPONSE:

This will be implemented in the current year.

RECOMMENDATION #18

A. FOLLOW FEDERAL INSTRUCTIONS WHEN PREPARING ITS FISAP REPORT.

B. SUBMIT AMENDED FISAP REPORTS CONCERNING MAINTENANCE OF EFFORT AND TUITION AND FEES.

A. Concur.

B. Concur.

RESPONSE:

This was an oversight and will be corrected.

RECOMMENDATION #19

A. REFUND THE U.S. DEPARTMENT OF EDUCATION $705 FOR COLLEGE WORK STUDY OVERAWARDS.

B. MODIFY THE FINANCIAL AID OFFICE SYSTEM TO PREVENT OVERAWARDS.

C. NOTIFY THE STUDENT TO PAY $82 ON THE PRINCIPAL OF THIS GUARANTEED STUDENT LOAN.

Concur.